9/24/80 B4750-1 D

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Sept. 19, 1980

On the whole, economic reports released this week were consistent with recent data pointing to a resurgence of economic activity. Since inflation remains troublesome, however, many market participants do not view with favor the increasing likelihood that the economy is entering a recovery.

Yet one should recall that recoveries are not all bad for the markets. For example, the brisk improvement of corporate cash flow that takes place in the early stage of a recovery lessens the pressure on corporate treasurers to raise funds in the money and capital markets. This would be welcome relief, especially for the corporate bond market, which has been laboring under record-breaking volumes of new issues in recent months.

But the implications of the recovery for the Fed's policy stance were the primary focus of market attention. As we have noted previously, there was little to suggest that the FOMC meeting on Tuesday would result in any meaningful policy change; and so far, events seem to have borne out that judgment. In the last few days, the Fed has entered the market to arrange a number of technical transactions designed to preserve overall reserve balance without giving evidence of any move either to a more restrictive or to an easier degree of reserve availability.

To many market participants, however, the scarcity of recent transactions by the Fed for its own account has been troublesome, for it has prevented them from getting a fix on the Fed's so-called intervention range, thus increasing their uncertainty. But one person at least remains unconcerned about this state of affairs: Chairman Volcker, in a speech this week to the Dealer Banks Association, emphasized--once again--that under the new reserves-oriented operating procedures the Federal funds rate is for the most part "coincidental." That should give pause to market participants who gauge the Fed's policy stance by reference to a notional intervention range.

Another recent development that has caused a bit of confusion is the strong growth during August of effective reserves--i.e., total member bank reserves adjusted for reserve requirements. Some commentators have interpreted the August expansion as presaging a later surge in money growth. One problem with this view is that many deposits that are not included in the narrow money stock are nevertheless reservable. During August, for example, large time deposits expanded over $6 billion, increasing reserves by over $300 million (our estimate). In targeting the narrow aggregates, the Fed will routinely accommodate the extra reserve need created by CD growth. In addition, during the August period banks were forced to increase their borrowing at the discount window when the Fed refused to provide sufficient nonborrowed reserves to cover the reserve need created by the August money surge. Since these two factors explain much of the increase in effective reserves, the Fed appears to have done nothing to encourage a future money surge.

William C. Melton

Irving Trust

Market Yields

	9/19/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	12.50%	12.25%	13.25%
Effective since	9/19/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	11.00
Federal Funds	10.75	10.75	11.50
Repurchase Agreements	10.00	10.00	11.05
U.S. Treasury Issues			
Bills			
3 months	10.01	10.60	10.60
6 months	10.35	11.10	10.90
1 year	10.40	11.30	10.80
Coupons			
2 years	11.65	11.42	9.98
4 years	11.75	11.40	9.52
7 years	11.76	11.45	9.45
10 years	11.35	11.35	9.27
Long Bond	11.30	11.20	9.11
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.00	10.75	12.00
3 months	11.10	11.15	12.05
6 months	11.60	11.50	12.20
1 year	11.70	11.75	12.25
Banker's Acceptances			
1 month	10.75	10.70	11.81
3 months	11.10	11.20	12.05
6 months	11.40	11.60	12.20
Eurodollar Deposits			
1 month	11.25	11.00	12.25
2 months	11.63	11.44	12.56
3 months	11.88	11.75	12.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	10.50	11.25
1 month	10.50	10.63	11.65
3 months	10.63	10.50	11.00
Bank Holding Companies			
1 month	10.63	10.50	11.65
Dealer Placed:			
3 months	10.88	10.75	11.80
New AA Corporate Utility Bond	13.13	13.00	10.10
Tax Exempt			
6 month Project Notes	5.50	5.90	5.50
1 year AAA Bond	5.90	6.10	N.A.
5 year AAA Bond	6.10	6.30	N.A.
20 year AAA Bond	8.00	8.20	6.15

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629